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The Agricultural Connection

Commodity Update

Grain and feed:

In Thailand, exporters and farmers have signed a number of corn supply agreements with traditional importers. This policy has been encouraged by the Commerce Ministry's Department of Foreign Trade in the face of declining world prices and depressed grower returns. These agreements are believed to cover over 1.3 million metric tons of an estimated record 2.4 million tons in corn export availabilities during 1981/82 (July-June). The actual implementation of these agreements will depend on price negotiations to be held about 15 days prior to each sale.

Japanese feed manufacturers are using more surplus rice in compounding feed rations for livestock. Since July, the government has sold about 27,000 tons of rice for this use. Previously, manufacturers had resisted buying surplus rice because they felt the price was not attractive enough. Altogether, about 220,000 tons of rice are expected to be fed during the July 1981 to June 1982 period, displacing about an equal amount of feed grains, particularly sorghum.

In Australia, dry weather in southern Queensland and northern New South Wales has seriously affected the 1981 wheat crop. A field survey, jointly conducted by the U.S. agricultural counselor in Canberra and the Australian Bureau of Agricultural Economies, indicated extremely poor wheat crops in northern New South Wales, with some areas suffering complete losses. Conditions have improved in the central portion of New South Wales and are considered excellent in the southern areas, as well as in Victoria. Based on the field survey, the USDA has revised its forecast of Australia's 1981 wheat crop downward to 15.1 million tons.

Oilseeds and products:

The Philippine copra situation continues to be extremely unsettled in the wake of the government lifting and then reimposing a levy on the export of coconut products.

The export levy, which totaled US$94.76 per ton was lifted Sept. 9 in an attempt to provide relief to domestic processors and exporters and hopefully to stimulate export sales. Funds from the levy were used in part to maintain the domestic copra support price. At the time the levy was lifted, it was unclear whether the support price would continue.

In addition, the government has called for closer cooperation among members of the Asian Pacific Coconut Community (APCC) to assist the coconut industry in recovering from a world-wide slump. Interest in development and expansion of alternative uses for coconut oil, as well as for other coconut products, was expressed at a recent APCC meeting.

In the days following the levy repeal, considerable confusion was generated and only minor speculative buying activity occurred, with prices running below the official support price. The country's largest processor—United Coconut Oil Mills—suspended copra purchases, pending development of a new buying policy. (See related article on page 20.)

Cotton:

In the Soviet Union, the outlook for the 1981/82 cotton crop continues to improve because of favorable weather, which has enabled the crop to overcome the earlier lag in development. The current situation is in sharp contrast to a cold, wet spring followed by intense heat with "sukhovey" winds. Thus, the 1981/82 cotton crop has been revised upward to 13.7 million bales (480 lb net), versus last year's record 14.3 million bales. The cotton crop, however, has been late in maturing and the final outturn is still somewhat uncertain as poor weather could substantially reduce output. On the other hand, production could exceed 13.7 million bales if favorable weather persists throughout the end of the year.

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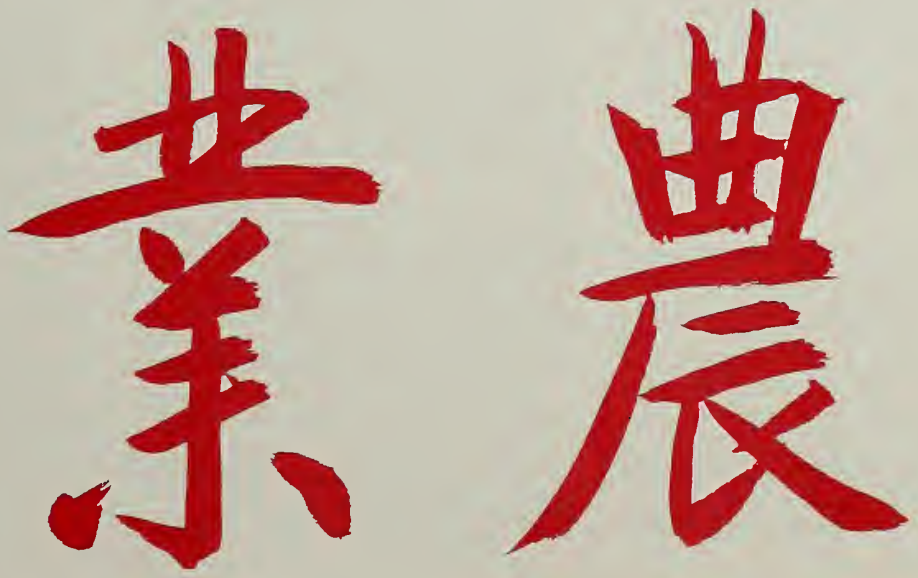

East Asia and Pacific Region Growing in Importance for U.S. Agricultural Trade

Asian scenes: Family (left) taking a ride in Taiwan; elderly gentleman (above) in China practices Tia Chi exercises to promote physical and spiritual harmony; at right, 5th National Folk Congress, Beijing.

By Robin Tilsworth

Secretary of Agriculture John R. Block made an extensive trip to Asia in October, visiting Japan, Korea and China. His activities included discussions with the Japanese on food security and a number of important agricultural trade issues. He announced the results of the annual credit negotiations between the Republic of Korea and the United States for a GSM-102 credit guarantee program of $590 million to be used by Korea for the purchase of U.S. farm products for fiscal 1982.

In China, Secretary Block continued the dialogue initiated during Deputy Secretary Lyng's trip last summer. The Secretary met with the Vice Premier of the State Agricultural Commission and participated in ceremonies marking the construction of a U.S.-sponsored model bakery to be opened later in Beijing.

As evidenced by the Secretary's trip, there is a growing realization that global economic activity is shifting from the Atlantic to the Pacific. In agricultural trade, East Asia and the Pacific[1] have grown into the largest market for U.S. agricultural commodities.

The present and future importance of the East Asian and Pacific market for U.S. agricultural exports is best demonstrated by a few facts:

- In 1980, four of the top 10 markets were in this area—Japan ($6.1 billion), China ($2.2 billion), Korea ($1.8 billion), and Taiwan ($1.1 billion).
- Over the last 10 years, the rate of growth in this area on the average has been well above the overall growth rate for U.S. agricultural exports.
- The Asian markets represent the top markets for many individual agricultural products. For example, in 1980, China was the largest market for both cotton and wheat; Japan's purchases outstripped those of other buyers for a large number of products including feed grains, soybeans, beef, and citrus fruits; and Korea was the No. 1 market for U.S. rice.
- East Asia and the Pacific area were the final destination for more than 30 percent of total U.S. agricultural exports in 1980—$13.1 billion worth.
- This region ranked second behind the Western Hemisphere as a source of agricultural imports and retains first place in terms of total agricultural trade.

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[1]Japan, China, Hong Kong, Taiwan, the ASEAN countries (Thailand, Malaysia, Singapore, the Philippines, and Indonesia), Australia, New Zealand, Pacific Island countries, and other Southeast Asia countries.

This area is diverse in terms of the level of economic development, the systems of government, the population growth, dietary habits, and climates—all factors that influence food consumption, agricultural production, and trade in farm commodities.

In contrast to Hong Kong and Singapore, which have high population densities and import 85 and 90 percent, respectively, of their food consumption, are the sparsely populated countries of Australia and New Zealand, which have population densities of under 12 people per square hectare. (The U.S. average is 23.8 people per square hectare.)

New Zealand and Australia are net food exporters, and import only 4-5 percent of their food consumption needs. Japan, the largest market for U.S. agricultural products since 1964, imports roughly 50 percent of its food. The other three Asian countries in the top 10 farm markets in 1980—Korea, Taiwan and China—import 32 percent, 11 percent and 5 percent, respectively, of their food consumption.

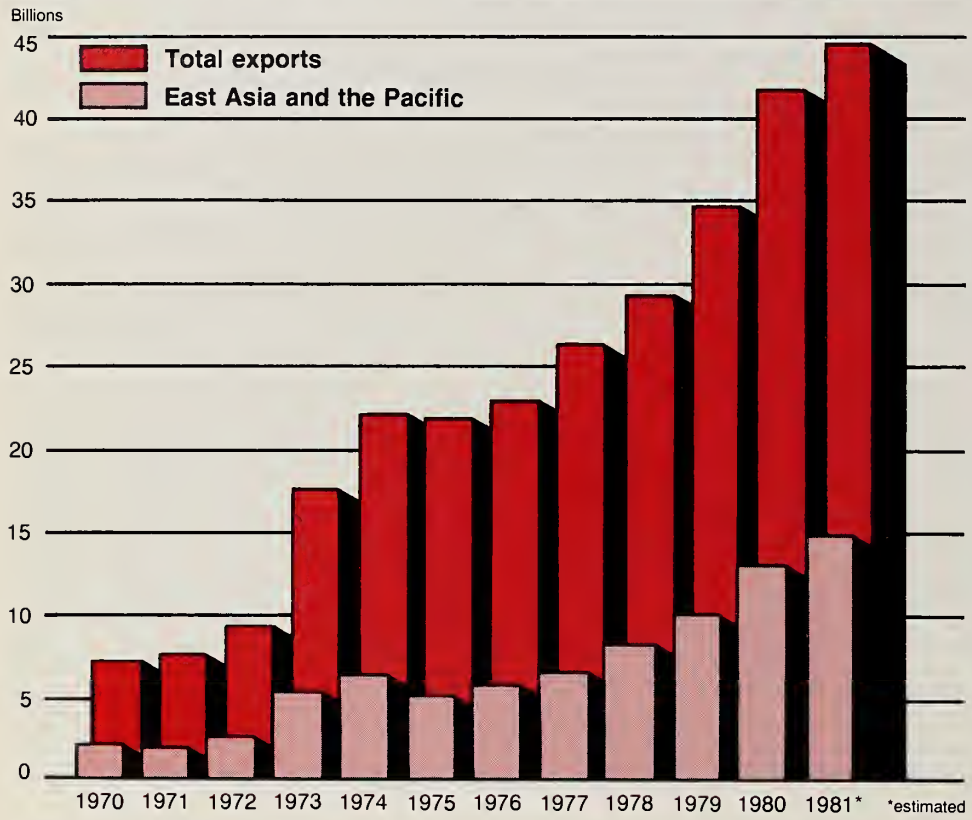
In reviewing trade during the past decade, the highest valued exports to the region in 1970 included soybeans, wheat, corn, rice, cotton, tobacco and hides. By 1980, the basic products—wheat, corn, cotton, and soybeans—remained the highest valued U.S. sales, but there were some shifts. For example, rice sales were not as strong, while beef and tropical products increased in both value and volume sold.

In individual commodtiy markets, cotton, tobacco, and wheat began and ended the decade as major exports to Korea and Thailand. The proportion of the total trade accounted for by soybeans and soybean products increased substantially in both countries. Fruit sales to Taiwan and Hong Kong expanded a great deal. Indonesia and Korea are important markets for U.S. rice, though the level varies according to domestic production.

The most noticeable feature about exports to China is the marked increase over the past few years: between 1978 and 1979, the total value increase by 160 percent, and between 1979 and 1980, the trade jumped another 122 percent.

As the proportions of food imported would suggest, several of the countries in the Asian region are substantial agricultural exporters. The United States is a net farm importer from Australia, New Zealand, Indonesia, Malaysia, and the Philippines. Generally, a few commodities contribute to this status. The major agricultural import from both Indonesia and Malaysia is natural rubber. Indonesia also provides coffee, coconut oil, and spices. The major imports from the Philippines are coconut oil, sugar, and fruit, nut, and vegetable products.

U.S. Agricultural Exports, FY 1970-81



The major imports from both New Zealand and Australia are livestock products. Several of these countries also compete with the United States in third markets, such as Malaysia. While the United States exported some wheat to Malaysia in 1980, the bulk of Malaysia's wheat imports originated in Australia. Thailand is the major supplier of rice to Indonesia and Malaysia, and exports corn to Malaysia and Japan. China and the Philippines are also rice exporters.

USDA Export Credit programs, such as the Commodity Credit Corporation (CCC) GSM 102 credit guarantee programs and P.L. 480 have been and continue to be used by several countries in East Asia and the Pacific. In fiscal 1981, Korea was second only to Poland as a top recipient of CCC credit guarantees and is expected to be first in fiscal 1982.

Fiscal 1981 was also the final year for P.L. 480 in Korea as it completed its transition from primarily a concessional sales market to a major U.S. commercial market. These export credit programs have enabled the United States to develop and maintain its primary supplier position with Korea for a number of commodities, such as cotton, wheat, corn, and meat products.

Thailand has used the credit to finance cotton imports over the past decade. CCC credit guarantees to Thailand have helped boost the U.S. market share in cotton to close to 70 percent. The markets for U.S. wheat in Indonesia and the Philippines were developed by extending CCC direct credits and P.L. 480. Tobacco has been shipped under CCC programs to the Philippines, Australia, and New Zealand.

U.S. agricultural exporters face a wide range of trade regimes in the East Asia and Pacific region. Japanese import policies favor imports of bulk commodities and discourage the importation of value-added or processed food products. China imports basic foodstuffs primarily for distribution in the coastal city areas. Hong Kong and Singapore are largely free ports; much of their trade activity involves the reexport of commodities. Ninety-five percent of U.S. agricultural products enter Indonesia duty free, or are subject to low duties. The remaining 5 percent, which includes certain food and beverage products, are subject to stiff tariffs.

Thailand maintains a fairly complex system of tariffs, both ad valorem and specific. In addition, it totally restricts some goods considered as luxury items, such as confectionary items and, until recently, some fresh fruits. Korea revamped its import policies in 1978, and is making a conscious effort to move toward free access for many agricultural products.

Agricultural exports to East Asia and the Pacific region are expected to continue experiencing a healthy rate of growth, totaling $13.1 billion in calendar 1980. Wheat, cotton, soybean, and tobacco sales will continue strong for the next few years. Policies held by the individual countries in the area will support the maintenance of U.S. farm sales. Japan, Korea, and Indonesia all place great importance on the stability of import sources.

Through bilateral consultations and the continuation of export promotion and trade servicing programs, the United States demonstrates to these trading partners the importance it places in them. Many of the developing countries in the area are consciously trying to avoid using precious foreign exchange for the purchase of foodstuffs.

However, China provides an example of the pragmatic approach to trying to expand production and increase specialization while continuing to import grains. Through agricultural technical assistance programs and selective market development activities, U.S. agricultural interests strive to complement China's development needs to the benefit of both countries. ■

Fact File

U.S. Agricultural Exports to Major Asian Markets

Japan continues to retain its position as the No. 1 market in Asia for U.S. agricultural exports. Other principal markets are South Korea, Hong Kong, Taiwan, Singapore, Thailand, the Philippines, Pakistan, India, Indonesia, Bangladesh, and China.

In Japan, corn and soybeans account for the largest share of sales of U.S. farm products, followed by grain sorghums, wheat and wheat flour, soybean cake and meal, cotton, fresh citrus, and sugar and tropical products, to name a few.

Consumer demand in Japan, spurred by high per-capita income and an overall healthy economy have led to the steady increase in the Japanese market for U.S. agricultural products. Also, intensive market development activities, jointly sponsored by USDA's Foreign Agricultural Service and agriculturally oriented nonprofit associations—known as market development cooperators—have contributed to the steady growth in demand for U.S. farm products.

For example, demonstrations, marketing trips, and educational programs in Japan have helped build a poultry industry in that country which depends primarily on U.S. technology, feed grains, and soybeans for support.

After Japan, South Korea is the largest Asian market for U.S. corn. Sales for January-August of this year increased 9 percent in volume, compared with the same period of 1980. Other important U.S. corn markets in Asia are China, Taiwan, and the Philippines.

The benefits of market development programs have shown up in other Asian markets as well. U.S. cotton is another commodity heavily marketed overseas. Among the top ranking markets in Asia for cotton are China, Taiwan, Hong Kong, and South Korea.

Of all the agricultural commodities the United States exports to Asia each year, wheat and wheat flour have been more consistently in demand than any other category. Much of this demand can be attributed to market development activities.

The model demonstration bakeries are an example. These bakeries teach the preparation of western-style bakery goods, using wheat imported from the United States.

The newest of these projects is in Beijing, China, where Secretary of Agriculture John Block, during his recent visit to China, took part in ceremonies marking the construction of the first model demonstration bakery in that country.

Although total U.S. agricultural exports have not shown the steady growth thus far in 1981 as has been demonstrated in the past decade, some markets in Asia have exhibited significant gains for the January-August 1981 period.

The top U.S. agricultural market for trade growth in Asia for the first 8 months of this year was Singapore with a volume increase of 60 percent. Second was Thailand with a growth for the same period of 42 percent.

Next came South Korea, showing a 14-percent gain in volume for the January-August 1981 period. The Philippines posted a 13-percent increase, Pakistan 5 percent, China 4 percent, and Taiwan 4 percent.

Analysts believe an expected increase in world economic growth could boost U.S. agricultural exports by mid-1982.

Two basic factors have and will continue to influence agricultural exports over the next year—world economic growth and U.S. interest rates. Over the past year, the developed and developing countries have experienced stagnant to moderate economic growth. This has slowed per-capita income growth and dampened overall demand for goods and services. Analysts expect a turnaround and this could benefit U.S. agricultural trade.

High U.S. interest rates have had a twofold impact: First, they have promoted rapid appreciation of the dollar against major world currencies, thereby making U.S. exports relatively more expensive in the absence of other trade barriers. This dampens demand for U.S. exports in general, including agricultural exports. The appreciation should widen the U.S. trade deficit in 1981 and continue to influence trade flows during 1982.

The second factor is the high rates which have increased borrowing costs for developing countries. Insofar as these countries finance some portion of their agricultural imports, it is to be expected that continued high interest rates will tend to dampen their demand for agricultural exports. However, most analysts expect that in 1982 the dollar will soften relative to its current position and this could benefit U.S. exports in general.

U.S. Agricultural Exports to 12 Asian Markets, CY 1974-80

(in thousands of U.S. dollars)

Country	1974	1975	1976	1977	1978	1979	1980
Bangladesh	209,910	329,464	92,355	129,391	106,690	144,502	221,288
China	652,559	79,689	44	63,982	573,297	990,159	2,209,524
Taiwan	429,904	564,702	473,724	611,870	824,804	1,074,497	1,095,049
Hong Kong	184,576	130,326	206,048	303,905	359,396	361,332	436,627
India	454,843	759,889	773,898	290,550	281,654	260,865	317,480
Indonesia	101,150	118,086	234,147	241,968	317,028	322,360	414,084
Japan	3,478,274	3,081,617	3,563,057	3,856,789	4,435,261	5,255,344	6,110,676
South Korea	742,615	829,657	829,802	919,289	1,148,056	1,440,756	1,797,420
Pakistan	158,528	174,759	144,198	85,142	276,197	198,608	157,792
Philippines	172,839	162,343	168,401	186,126	212,050	262,510	319,206
Singapore	43,297	43,390	56,134	72,508	76,806	91,670	135,023
Thailand	81,594	79,643	95,893	108,442	126,730	157,479	161,923

U.S. Agricultural Exports to Major Asian Markets, by Value, January-August 1981

Country	Jan.-Aug. 1980	Jan.-Aug. 1981	Percent change
Bangladesh	205,206	60,363	−71
China	1,348,073	1,314,092	−3
Taiwan	697,608	727,302	+4
Hong Kong	315,657	263,551	−17
India	263,449	183,427	−30
Indonesia	297,272	289,270	−3
Japan	3,712,120	4,350,188	+17
South Korea	1,139,025	1,497,086	+31
Pakistan	124,943	120,071	−4
Philippines	207,556	233,548	+13
Singapore	90,198	124,296	+38
Thailand	133,208	152,221	+14

Japanese Develop A Taste for U.S. Chicken

By Daniel K. Berman

Traditional Japanese cuisine revolves around rice and fish. But the gradual westernization of the Japanese diet has led to greater consumption of both domestic and imported chicken. Since 1960, per capita chicken consumption has grown 9.4 times, more than for any other meat.

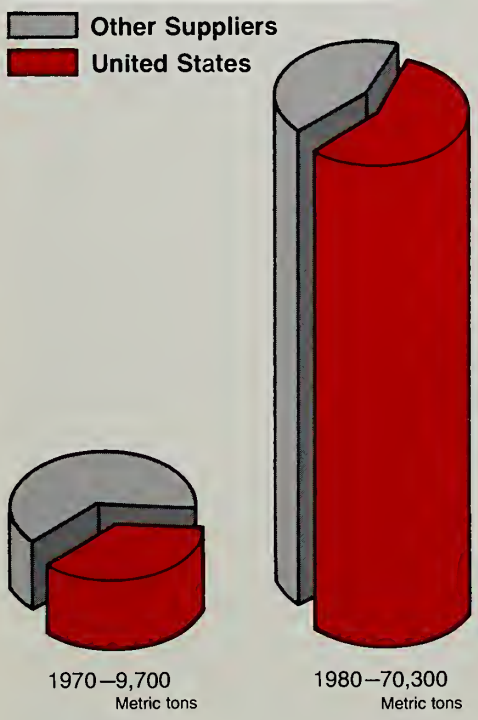
Western and Japanese chicken differ markedly in taste and do not compete directly. Most domestic chicken is sold boneless for traditional dishes like Yakitori (small pieces grilled on a stick). On the other hand, U.S. chicken arrives frozen and is sold with the bone intact for use mostly in western-style dishes. Supermarkets have effectively created the demand for bone-in legs, the major U.S. export item.

The emergence of Japan as a major chicken importer is striking. The Japanese imported 70,300 metric tons of chicken in 1980, compared with only 9,700 tons 10 years earlier. The export performance of the United States has paralleled and surpassed this explosive growth, jumping from 3,900 tons (41 percent of the market) to 40,600 tons (58 percent) over the same period.

The future for U.S. chicken exports to Japan looks strong through the next decade. The immediate situation is also very encouraging. In the first eight months of 1981, Japan imported almost 68,000 tons of chicken. Nearly 41,000 tons came from the United States, an increase of 73 percent over the same period in record-setting 1980.

The greatest competitive advantage for U.S. chicken is price, which is half that of live chicken in Japan. Japanese producers must buy feed from the United States which raises the cost of the domestic product. Japanese import levels are influenced by local market prices, U.S. export and domestic prices, and the yen/dollar exchange rate. Together, these factors determine whether U.S. chicken can be sold competitively. Japan imposes a duty of 17.5 percent on bone-in legs and 20 percent on all other chicken meat.

Japanese Imports of Chicken



Thailand and China also supply chicken to Japan. China, with 17 percent of the market in 1980, has traditionally exported chicken (mostly boneless) to Japan at competitive prices to earn foreign exchange. Thailand has developed its chicken exports rapidly and holds about 23 percent of the 1980 import market. The Thais have good prospects in Japan due to: their local feedgrain supplies and low labor costs (an important advantage in boneless chicken production), technical assistance from Japanese buyers, and the Thais' export orientation to meet the sometimes exacting specifications of the Japanese market.

Import Channels

Importers range from the meat departments of giant trading companies to smaller more specialized firms. Sometimes U.S. chickens are purchased through the American offices of large Japanese trading companies. Alternatively, some big U.S. processors have export departments that offer chicken directly to Japanese buyers. But most transactions are handled by export brokers who may be located in the United States or Canada.

These brokers offer (via telex) chicken bought from processors, often surplus production purchased on a speculative basis. Brokers usually respond quickly to export opportunities, offer competitive prices, and have superior market information and good knowledge of export procedures.

From the importer, chicken may follow several wholesale channels—those of the importer, a major meatpacker/ processor with its own distributors and meat shops, or a traditional wholesaler who supplies independent poultry shops and restaurants. Large supermarket chains often have their own import system and place orders directly or through Japanese importers.

Market Prospects

From its Tokyo office, the Poultry and Egg Institute of America (PEIA), an FAS cooperator, has long campaigned to increase Japanese consumption of U.S. chicken and other poultry products. Among the many functions PEIA sponsors are in-store promotions to raise consumer awareness of U.S. chicken; lectures, demonstrations, and seminars for consumer and institutional groups; and brochures and recipes stressing the good taste and quality of U.S. chicken.

The next decade will present very attractive export opportunities for the U.S. chicken industry, especially those segments willing to produce specifically for the Japanese market. This is partly due to the U.S. producer's production cost advantage, which may grow in the future. The projected rise in fish prices and the continuously evolving Japanese diet should also boost consumption. Japanese demand for chicken in 1990 will be roughly 50 percent above levels in the late 1970's. An increasing portion could come from the United States. ■

The author is Assistant U.S. Agricultural Attache, Tokyo.

The Japanese Market: Where To Go From Here?

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By William T. Coyle

The Japanese market for U.S. farm products appears to have the monentum to sustain another decade of expansion.

The gains may not be as easy as in the 1970's. U.S. trade will continue to be influenced by Japan's strong protection for its domestic agriculture, alongside efforts to diversify sources of supply.

On the plus side, however, are factors such as:

- Further population and income growth.
- Continued "westernization" of the diet;
- A gradual tendency toward trade liberalization;
- Resource limitations; and
- Limited supply of fish—the main protein source.

Recent Trends To Continue

During the next decade, Japan's population should grow by a little less than 1 percent annually, and per-capita income, by 3-4 percent yearly. Income growth will be low by historical Japanese standards, but quite high when compared with projected rates for other countries. These growth factors alone will keep Japanese demand for food on the rise.

And there should be further westernization of the diet, with its stimulating effect on demand for poultry, red meat, wheat, feed grains, soybeans, and fruits and vegetables. Per-capita intake should rise in line with these changes, while demand for traditional foods such as rice, fish, and soy-based foods declines further.

As in the past, Japan will attempt to produce as much as it can and import the residual. But efforts to increase agricultural production could be thwarted by public resistence to rising

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budgetary outlays for a basically small-scale and inefficient agriculture.

High support prices have helped perpetuate the system. These are maintained through restrictive import policies that insulate domestic producers from outside competition.

Imports of wheat, rice, and barley, for instance, are strictly managed by the Government's Food Agency. Import quotas are imposed on 22 different agricultural and marine products, including beef and fresh oranges. Tariff quotas are applied on imports of 11 agricultural products, including corn for industrial purposes and barley for feed. Plant and animal quarantine regulations—plus an inefficient marketing system—also tend to keep retail prices high and limit import demand.

The welfare cost of this system has been estimated in the billions, with the government's budgetary costs equal to 25 cents for every dollar of gross agricultural income.

Protecting Japan's agriculture and increasing its self-sufficiency are longstanding national goals with widespread popular support. Sensitive to their dependence on food imports—and influenced still by memories of widespread hunger during World War II—the Japanese will continue to protect their agriculture, but perhaps not as stridently as before.

The ruling Liberal Democratic Party (LDP), which derives much of its political strength from rural districts, has been losing support over the past 20 years. Short-term protectionist policies might be implemented by the LDP to temporarily solidify farm backing on certain issues from time to time. This could happen in early 1983, when the United States and Japan are scheduled to consult on expansion of high-quality beef trade beyond 1984. But the longer term outlook is for less favored governmental treatment of agriculture.

Despite this lead role, domestic agriculture has been supplying a steadily diminished share of the national food supply. In terms of original calories, the country's self-sufficiency in agriculture has declined from 76 percent in 1960 to 44 percent in 1977.[1]

Official projections indicate optimistically that Japan's agricultural self-sufficiency will remain unchanged through 1990, that growth in imports and domestic production will be about the same over the next decade. The projection is predicated, however, on the success of Japan's program to divert riceland to other crops—an expensive proposition that could meet with political opposition.

Limits on agriculture are further compounded by dependence on the world's fishery resources. Japan has become more dependent on imports of fishery products, reflecting a leveling off of its fish catch at 10-11 million tons annually since 1972.

Rising retail fish prices may lead consumers to shift further away from costly fish to meats, eggs, and dairy products. This could prompt increased imports of finished livestock products or expanded production, requiring larger imports of feed grains and oilseeds.

So even though Japan's agriculture is highly protected at present, it will—out of necessity—become less so in the future. Liberalization will occur gradually as Japan saps its own resources to meet the needs of a growing population with higher incomes.

U.S. Seen Retaining Its Market Share

Despite Japanese efforts to encourage farm production in countries that could serve as alternate sources of supply, the United States will likely maintain its current share of the Japanese market. Over the past 10 years, Japan has relied on the United States for more than one-third of its total agricultural imports, and the share has increased slowly but steadily. The future should be no different.

More than 80 percent of U.S. agricultural exports to Japan are bulk commodities, used as inputs in various Japanese agricultural industries from cotton spinning to livestock production. Such items as feed grains, oilseeds, tobacco, and cotton made up 87 percent of total U.S. agricultural exports in 1980. Over the next decade, import demand for these bulk commodities will rise or fall depending on market conditions in Japan. While imports of cotton and unmanufactured tobacco will probably fall, the market for feed grain and oilseeds should continue to expand although more slowly than in the 1970's.

Higher value-added agricultural commodities make up the balance of U.S. agricultural exports to Japan. This trade, in such commodities as meats, dairy products, fruits, vegetables, and nuts, which require greater handling and processing, is more restricted, and gains here will be more difficult—but possible.

Nontariff concessions resulting from U.S.-Japan bilateral trade negotiations in late 1978 will assure that imports of such high value-added items as high-quality beef, fresh oranges, and citrus juice will increase over the next few years.

Japan also agreed to tariff reductions phased in through 1987 on many high value-added items such as grapefruit, lemons, almonds, raisins, and chicken legs.

The United States thus should continue to fare well in the Japanese market. However, Japan still is sensitive about its dependence on the United States and when possible will attempt to divesify its sources of supply.

Maintenance of the U.S. share in the Japanese market will, in general, depend on competitive prices, as well as this country's reliability as a supplier of high-quality products. ■

[1]Japanese Agricultural Policies: Their Origins, Nature, and Effects on Production and Trade, 1981 Bureau of Agricultural Economics, Australia.

Hong Kong Offers Bright Prospects for U.S. Food Exporters

By William C. Tinklepaugh

David Sutton

U.S. food exporters should look to Hong Kong when developing their marketing strategies—it possesses all the key ingredients for successful food sales.

Just a few examples:

- A population of 5-6 million people, increasing at a rate of 1 million per decade. More than 50 percent of this population is 25 years old or younger.
- Limited self-sufficiency in domestic agricultural production—90 percent of Hong Kong's food and fiber needs must be imported.
- A prosperous tourist industry.
- A growing economy and the second highest per capita income in Asia.
- Free port status.
- A government policy of positive, nonintervention in the marketplace.
- Increasing demand for high-quality imported food products.
- A growing trend toward more westernized diets.

All these factors make Hong Kong a lucrative market that is expected to import $3 billion worth of food and agricultural products in 1981.

The United States already is Hong Kong's largest overall trading partner and its second largest supplier of food and fiber needs, accounting for 20 percent of imports in 1980. In 1981, U.S. agricultural exports to Hong Kong are expected to exceed a record $450 million. But potential exists for an even greater market share.

Because of its small and relatively unproductive land area, only 9.5 percent of which is suitable for cultivation, Hong Kong is dependent on imports to feed its burgeoning population.

Urban encroachment, high land values, intense competition for water supplies, and a government philosophy of free enterprise that obviates direct subsidies or price supports to farmers put added pressure on Hong Kong's agricultural production, most of which consists of very small-scale vegetable, pig, and poultry operations.

Despite these factors and despite one of the highest population-to-land ratios in the world, Hong Kong farmers produce almost 40 percent of the Colony's vegetable consumption, 61 percent of its live poultry needs, and 15 percent of its live pig requirements.

But local production is designed to complement, rather than compete with, that of other major market suppliers. Domestic production efforts are aimed primarily at high-value, perishable foods, taking advantage of consumers' preferences for fresh, rather than frozen or chilled pork, poultry, and vegetables.

For other food items, Hong Kong's only answer is imports. China is Hong Kong's largest supplier of agricultural products—accounting for almost 40 percent in 1980.

Until recently, Mr. Tinklepaugh served as U.S. Agricultural Officer, Hong Kong. He is currently assigned to the Dairy, Livestock, and Poultry Division of FAS.

David Sutton

Hong Kong also imports agricultural products from Japan, Thailand, Australia, and several European countries, though none of these countries holds more than a 6-percent market share.

Getting To Know the Hong Kong Market.

Any viable marketing strategy in Hong Kong must take into account the characteristics of the two distinct segments of the buying population, which is divided between the traditional Chinese marketplace and the more Western-oriented institutional and retail supermarket trades.

The former is characterized by numerous open-air wholesale and retail markets. The typical shopper is generally an older member of the family or the family maid, who makes one or more trips daily to the market for fresh produce, meat, poultry, eggs, and seafood.

In this market, freshness, quality, appearance, and price are the determining factors. The typical distribution pattern in this sector is from supplier to importer/wholesaler to retailer to consumer, all within a few days, to ensure freshness and quality.

The institutional market, on the other hand, is dominated by the growing hotel-restaurant trade and three major supermarket chains. With an influx of 2.3 million tourists annually, the hotel-restaurant trade is expected to utilize even more U.S. beef, poultry, eggs, fresh produce, and specialty items than ever before.

Determining factors for successful sales to this sector include uniformity and high quality—requirements that many U.S. food products meet or surpass. Through the efforts of the Poultry and Egg Institute of America (PEIA), the U.S. Meat Export Federation (USMEF), and other USDA cooperators active in the Asian market, many U.S. food products are featured regularly in restaurants of most of Hong Kong's major hotels.

Western-style supermarkets are another promising and profitable route for U.S. exporters to take to the Hong Kong market. Major supermarket chains currently operate 80 retail outlets, which is expected to climb to 100 in the next 5 years. In addition, a U.S. chain of small, convenience stores is expected to open 100 outlets throughout Hong Kong in the next 10 years.

These factors point to the growing demand for one-stop shopping outlets, as well as for a larger, more varied selection of fresh and processed food items.

The increasing popularity of fast-food restaurants is another potentially lucrative market for U.S. exporters. And anyone considering engaging in the food market in Hong Kong can be encouraged by the fact that Hong Kong has more restaurants per capita than any other major city in the world.

Here are a few areas in which U.S. exporters either are doing well or can expect to find market development efforts worthwhile.

Cotton. Raw cotton has spearheaded the phenomenal growth in U.S. farm sales to Hong Kong, accounting for almost 35 percent of all shipments and reaching a record level of nearly half a million bales in 1980. Despite a sluggish market in 1981, U.S. cotton is still expected to maintain a substantial share of this market.

Fresh produce. With demand for high-quality fresh produce in Hong Kong expected to continue growing over the next few years, the Colony is expected to remain the single largest export market for a host of fresh U.S. fruits and vegetables.

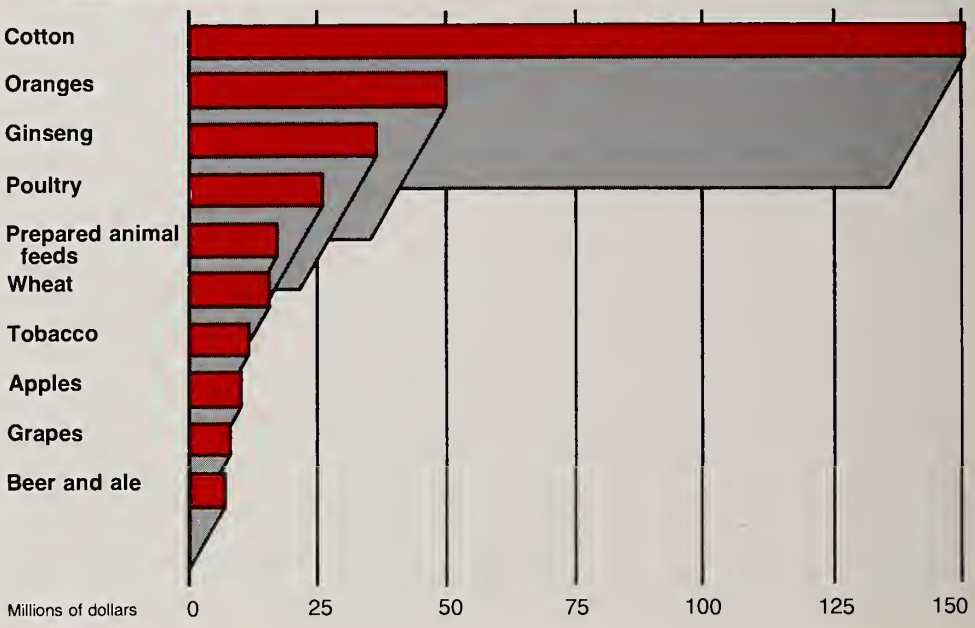
Hong Kong already is the largest overseas export market for fresh U.S. oranges, with imports in 1981 likely to exceed the record 111,000 tons imported in 1980. The United States currently commands an 80-85 percent share of the fresh orange market. Hong Kong's voracious appetite for fresh oranges is quite evident: per capita annual consumption is about 50 pounds—the highest in the world.

Hong Kong also is a significant market for U.S. table grapes, iceberg lettuce, fresh melons, and celery.

Apple exporters also find the Hong Kong market rewarding. It is the third largest overseas export market for U.S. apples. Apple imports this year should equal or surpass 1980 levels of 17,400 tons, which accounted for 42 percent of the Colony's imports.

Ginseng. The surge in U.S. exports of crude ginseng root to Hong Kong and the increase in value of this little-known U.S. crop have made it the third most valuable agricultural export to this market.

Top Ten U.S. Agricultural Exports to Hong Kong, CY 1980



Exports in 1980 were valued at a record $34 million, and it is estimated that 85 percent of the total U.S. ginseng harvest—cultivated and wild—finds its way to Hong Kong.

Although Chinese shipments of crude ginseng root to Hong Kong surpass those of the United States, U.S. ginseng accounts for 25 percent of the import requirements.

Poultry and products. U.S. poultry meat exports to Hong Kong have shown substantial gains in recent years, reaching a record $26 million worth in 1980. With an estimated consumption of more than 10 pounds per year, Hong Kong is by far the largest market in the world for U.S. chicken wings, which are preferred because of their size and uniform quality.

Hong Kong remains a viable market for fresh U.S. shell eggs, even though the import volume has declined somewhat from the record 14 million dozen in 1977. Nevertheless, the value of U.S. shell egg exports to Hong Kong did surpass the $4-million mark in 1980. Both the volume and value have remained fairly stable over the past 2 years despite competition from China, which is engaging in aggressive egg marketing efforts in this market.

Animal feeds. U.S. exports of prepared animal feeds, primarily of pre-mixed soybean concentrates in 100-pound bags, have shown steady, if not spectacular growth over the past 5 years. Growth is expected to continue as Hong Kong's feed formulations become more sophisticated. U.S. shipments in 1980 reached a record $17.5 million worth, most of which is destined for Hong Kong's chicken and duck operations. ■

Country Briefs

Japan

East Meets West At a Barbecue

East met West at a barbecue in Tokyo where top-quality U.S. pork and beef cuts were served to chefs of some of Japan's most prestigious restaurants. The barbecue was jointly sponsored by the U.S. Meat Export Federation (USMEF) and the U.S. Office of Agricultural Affairs, in cooperation with the Japan Restaurant Association. USMEF is a USDA cooperator that works with FAS to establish or enlarge export markets for U.S. meats.

The idea for the barbecue grew out of the favorable comments about U.S. barbecue by Japanese trade team members who visited the United States as guests of USMEF. The barbecue was held recently in the Chinzanso District of Tokyo, an area noted for its popular eating houses.

Although the menu was straight out of the American West—there were some exceptions. The tenderloins had no bones, of course, but neither did the pork chops. Japanese aversion to the presence of bones is more than cost consciousness; it also stems from Japanese funeral customs.

But while the custom of serving boneless meat is an old one, times do change. Where spareribs are served, they are well-received—and there were spareribs at the Chinzanso barbecue. In fact, the spareribs went first, and USMEF is looking forward to opening a new market in Japan for this cut.

Japan is 85-90 percent self-sufficient in pork and most of what it imports is processed. USMEF's experience with spareribs, however, indicates once again that there are strong opportunities for pork imports from the United States. The same is true for beef, even though the total quantity that can be imported per year—at least through 1983—is limited by import quotas.

For high-quality beef, most of which originates in the United States, the Multilateral Trade Negotiations (MTN) expanded quotas to permit imports of 30,800 metric tons by 1983. However, Japan and the United States also agreed to hold talks again in late 1982, so between now and then U.S. beef exporters should promote their product through every available channel.

In addition, the U.S. government, USMEF, and U.S. packers will be consulting closely to develop positions for those 1982 talks to ensure that the market wil be opened sufficiently so Japan can meet the demand resulting from the on-going promotional work of USMEF and its Japanese cooperators such as the Japan Restaurant Association.—*By John M. Beshoar, U.S. Agricultural Attache, Tokyo.*

Bangladesh

First Wheat Team Visits U.S.

This fall the first Bangladesh wheat trade team to ever visit the United States spent approximately 2 weeks studying all aspects of the U.S. wheat industry.

Team members—all high-ranking government officials—met with key members of the farming community and the international grain trade in Oregon, Idaho, Wyoming and Kansas. The team also observed commodity transactions taking place on the floor of the Kansas City Board of Trade.

The team visit, which was sponsored by U.S. Wheat Associates in cooperation with FAS, occurred shortly before U.S.-Bangladesh negotiations for next year's aid requirements were to take place. U.S. aid programs have played an important role in helping Bangladesh improve its diet since gaining its independence in 1971.

Bangladesh imports approximately $300 million worth of agricultural commodities annually, with the U.S. share of this market increasing from 9 percent in 1976 to 48 percent in 1980. Although rice is the staple food in the country's diet, wheat is fast becoming accepted as a nutritional food source with well over a million metric tons of wheat being imported each year since 1977.

Taiwan

Executives Study U.S. Rendering Industry

Ten representatives of Taiwan's food and refining industries toured the United States this summer to survey U.S. rendering industry operations. The 2-week trip included stops at tallow producers, brokers, tank terminals, and surveyors (laboratories) on the West Coast; margarine/shortening producers and feedlots in Denver; and a visit with industry representatives and the National Renderers' Association, Inc. (NRA) staff at the headquarters in Des Plaines, Illinois. The trip was sponsored jointly by NRA and FAS.

Taiwan's food and processing industries represent a major area for growth in use of U.S. tallow. Earlier this year, another team of Taiwanese industry officials indicated their "intent to purchase" 30,000 metric tons of U.S. tallow over the next 3 years.

Little Gain Foreseen in Cotton Imports in 1981/82

Taiwan's cotton spinners are not optimistic about the 1981/82 outlook for their textile exports, although the overall totals are expected to reach or slightly exceed the 1980/81 totals. As a result, the price relationship of cotton to polysters, energy prices, improvement in export market economies, and the perception of the size of the 1982/83 U.S. crop will be critical to the level of Taiwan's cotton imports in 1981/82. The current relatively large cotton stocks and the wait-and-see buying position of spinners who anticipate further declines in cotton prices indicate imports of cotton in the first half of 1981/82 may be relatively smaller than in the second half.

Taiwanese cotton use in 1981/82 is estimated at 220,000 metric tons (1.0 million bales), a 10-percent increase over 1980/81. Although preliminary data indicate 1980/81 textile exports were larger than the previous year, cotton use appears to have declined owing to the unfavorable cotton prices versus polyester during most of the year. Cotton stocks at the end of the 1980/81 marketing year were estimated at 122,000 tons (560,000 bales), a six-month supply. Forecast 1981/82 cotton exports of 220,000 tons (1.0 million bales) are slightly above the 1980/81 total. Cotton was imported from more than 40 countries in 1980/81. Higher prices for U.S. cotton, compared with other origins, cut sharply into the U.S. market share that dropped to an estimated 46 percent in 1980/81.

Italy

Ups Imports of U.S. Walnuts

Italy's imports of unshelled walnuts during September 1980-July 1981 totaled over 7 million metric tons, 66 percent higher than the same period a year earlier. Most of the increased imports came from the United States, but Romania, China, and India also supplied larger quantities. Italy, up to a few years ago one of the world's major walnut exporters, is now a net importer and the situation is unlikely to change in the future. Domestic acceptance of U.S. walnuts, especially in northern Italy, has risen significantly partly due to promotional campaigns organized by the importers. Many Italian consumers seem to prefer the California walnut to the traditional domestic nut.

Turkey

Composition of Turkish Exports Changing

Trade statistics for the first 6 months of 1981 revealed that the Government of Turkey's continued efforts to bring structural change to Turkish exports have begun to yield positive results. While there was a 24-percent increase in crop and livestock exports to $969 million in 1981, industrial exports rose by 96 percent to $896 million, and mining and quarrying products exports rose by 49 percent to $92 million.

As a consequence, agriculture's share of total exports slipped from 1980's 60 percent to slightly under 50 percent. Industrial products, on the other hand, comprised 46 percent of Turkey's total exports during January-June 1981, up from the previous year's 35 percent.

Among the industrial items, agriculture-based products—including olive oil, dehydrated and canned foods, and textile industry products—were primarily responsible for 1981's better performance. Because leading businessmen and industrialists apparently see the best prospects for exports in livestock and crop based products, major industrialists are tending to divert their investments to the agricultural sectors.

U.S. Farm Exports To South Korea Expected To Grow

By John H. Dyck

Prospects for continued large U.S. agricultural exports to South Korea remain bright for the 1980's. A major market for U.S. farm goods for many years, Korea's importance grew dramatically during the 1970's as the Korean economy expanded impressively. Despite the recent economic slowdown in Korea, U.S. farm exports to that market reached about $2.1 billion in fiscal 1981, up from $1.6 billion the year earlier. Korea ranked as the sixth largest U.S. farm market worldwide in the just-ended fiscal year.

The gains in U.S. agricultural exports to Korea during the past decade were spurred by the growth rate of Korea's economy that averaged more than 9 percent annually. The outlook of the 1980's calling for continued advances for U.S. farm exports is based on continued growth of the Korean economy as seen by the nation's planners.

The major factor expected to cause U.S. farm exports to grow significantly in volume during the 1980's is the growth in the Korean livestock production that will expand the market for feedstuffs. Prospects for other major U.S. exports are for cotton shipments to remain large or perhaps increase slightly while the expansion in wheat demand will slow somewhat. Korea's demand for soybeans for human consumption, some fruits, and processed foods will increase during the decade.

In addition to rapid growth, diversity of imports characterizes the Korean market. Foodstuffs (rice, wheat, and soybeans) and industrical raw materials (cotton, hides, tallow, corn, tobacco, and feathers) have increasingly been joined by feedstuffs (corn, soybeans, and sorghum).

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While demand for feeds depends largely on Korean consumers' ability to pay for meat, demand for food grains is heavily affected by Korean weather and crop outcomes. The demand for agricultural raw materials, such as cotton, is largely determined by world economic conditions and Korea's success in selling abroad.

Thus, the diverse reasons for Korea's need to import mean that no one factor is likely to have the same impact on all commodities. In fact, growth in sales for one commodity has often counterbalanced a weakness in other areas. This year, for example, recession weakened demand for meat, and as a result Korea took only about 2.3 million metric tons of U.S. corn—well below the 2.7 million tons in 1979.

The cool and wet weather of 1980 resulted in widespread sterilty in the rice fields; the harvest dropped 28 percent from 1979's level, so Korea imported more than 1 million tons of rice from the United States in 1981. Total agricultural purchases from the United States reached a new record despite Korea's recession.

The diversity of U.S. agricultural exports to South Korea is expected to continue in the future, virtually assuring that Korea will remain one of the largest U.S. markets worldwide. U.S. farm exports to Korea may fall to about $1.85 billion in fiscal 1982, because large purchases of U.S. rice will not be needed in light of Korea's improved harvest, and because unit prices of U.S. goods are likely to decline.

Nevertheless, prospects for the upcoming decade remain bright. Total trade will grow, and some commodities will benefit especially.

The chief reason for this bullish trade outlook is the forecast for South Korea's economy. The country's 5-year plan (1982-86) for development has been partly released. It sets forth a goal for real growth of the economy of 7.6 percent per year, less than the 9.8

percent average of the 1970's, but still healthy by world standards, and well above the growth in the troubled 1979-81 period.

The increase in the real GNP will stem largely from a targeted 20-percent annual increase in South Korea's export trade. This plan contains important and welcome aspects for U.S. agriculture.

Increased GNP will mean increased personal incomes for many Koreans. Several economic reports indicate that, in the past, Korea's demand for meat and livestock products has risen faster than income. This is true most of all for beef, but growth in pork, poultry, egg, and milk consumption has also risen rapidly. Average annual consumption per person of these products in 1980, in kilograms, was: beef, 3.6; pork, 6.3; chicken meat, 2.4; and milk, 10.8; plus 126 eggs per person.

Average livestock product consumption in developed countries like the United States and Japan is much higher, and even most countries at a similar stage of development consume more per person than South Koreans do. Therefore, there seems to be considerable room for growth in the Korean demand for livestock products in the 1980's—quite possibly increasing at a rate of 8-9 percent yearly, if incomes rise as the government's plan foresees.

This is good news for American corn and soybean farmers, who will be called on to supply feedstuffs for steadily larger livestock populations. Korean estimates foresee feed grain imports of 4 million tons in 1986 (roughly a 12-percent annual increase in 1982-86). Sales of breeding stock and forage crop/pasture seed should also benefit. However, large imports of actual livestock products from the United States are not likely.

U.S. agriculture should also benefit from the strong increases in Korean exports envisioned by government planners. Although there had once been widespread speculation that South Korea would lose its place in the world trade of yarns, textiles, apparel, and leather goods to countries with lower labor costs, it is now apparent that Korea is determined not to let this happen.

South Korea's government and industry officials hope that investment in more productive plants, greater attention to fashion and design, and making finished products as well as aggressive marketing will at least preserve South Korea's share of world exports.

These moves will directly benefit U.S. exports of:

- Cotton, which is expected to regain a 95-percent share of the Korean market in 1982 after high U.S. prices caused a decline in 1981.
- Hides and leather, which in 1982 will gain partly because the United States in June 1981 removed restrictions on shoes imported from Korea.
- Feather and down from the United States, which have grown rapidly in recent years, reaching about $25 million in 1981.

It would represent a considerable achievement for South Korea just to maintain its trade share of yarns, textiles, apparel, and leather goods at recent levels—but a growth in volume is unlikely to be large. U.S. cotton suppliers, particularly, can look forward to a continuing large Korean market,but not necessarily to a rapidly growing one.

A similar situation is likely to prevail in food grains. By world standards, South Koreans consume a great deal of grain—annually about 160 kilograms per person. This high level will probably fall as Koreans turn to diets richer in meat, fruits, and vegetables.

However, among the three major food grains—rice, wheat, and barley—it is probable that barley consumption will drop sharply enough to absorb all the decline in total grain consumption. So, per capita consumption of rice and wheat is unlikely to fall drastically—it may even rise. Aggressive marketing of new wheat flour products may boost wheat consumption throughout the decade, if the expected rise in incomes allows consumers to experiment with new foods.

Other important agricultural imports include soybeans, which have many uses in Korea—almost all of which are expected to grow in the 1980's. Soybeans are crushed for meal and oil; used for making soy sauce, tofu, and other traditional foods; mixed into the popular modern drink, soy milk; and included in many processed foods.

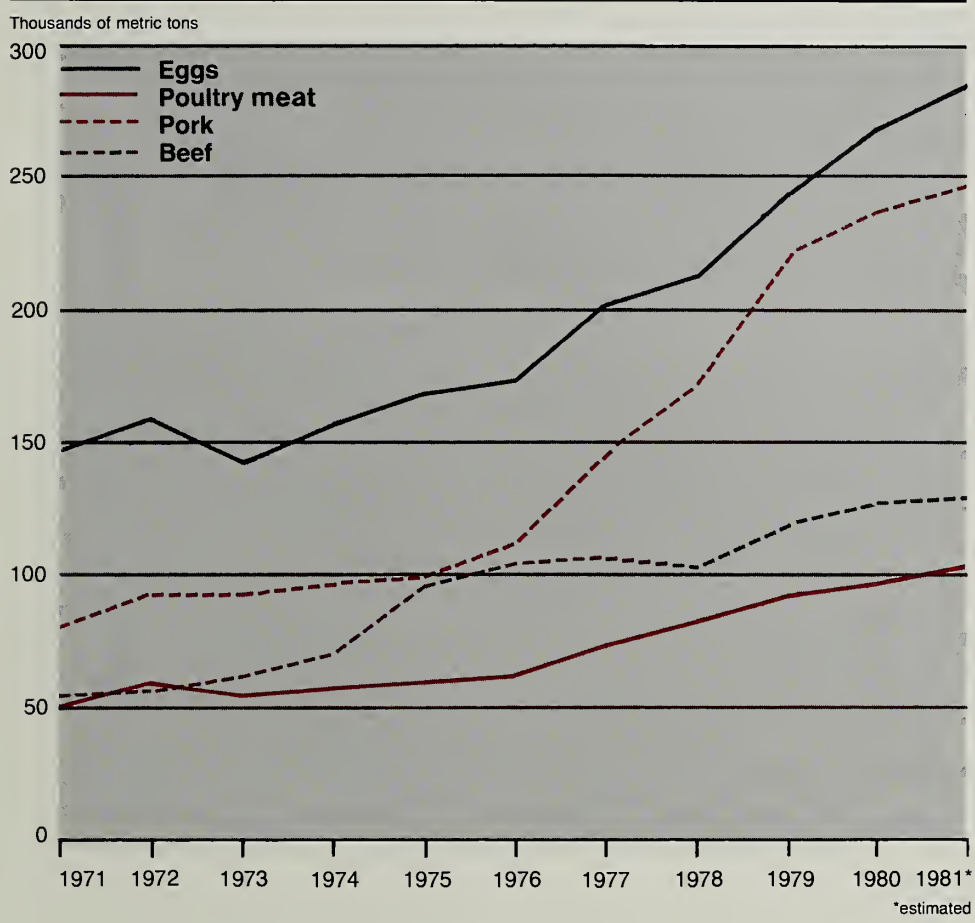
While South Korea has had success producing deciduous fruits, increasing incomes already have created a large potential market for citrus and tropical fruits, raisins, peanuts, and similar snack foods; however, trade barriers continue to protect the Korean market for several of these foods.

While economic growth is the major variable affecting Korea's demand for U.S. farm products, there are several other factors that merit attention.

One of these is the crisis in Korean agriculture. Farms remain small, averaging about one hectare (2.5 acres). Labor to cultivate the small plots intensively enough to keep production at high levels becomes ever more expensive as young people flock to cities for jobs and educational opportunities.

Production of the winter grains—wheat and barley—has declined sharply in the past decade because of the labor shortage, while rice production is affected by the high cost of labor at planting and harvesting time.

South Korean Production, 1971-81



The current structure of South Korean agriculture assures that domestic wheat production will not replace imports. It also dims prospects for South Korea to increase rice production enough to be self-sufficient.

Larger scale farming by a smaller rural population is likely to emerge in the 1980's, but the speed and the success of this transformation will depend greatly on government land and farm-income policies that have yet to be spelled out.

Another issue, important to American corn, soybean, and sorghum farmers, is the kinds of meat South Koreans will eat. Beef production has flagged because cattle raising in the past had mainly a draft-animal emphasis. Larger beef herds are not being established fast enough to meet the increased demand for beef. The fundamental problem for beef producers (and for dairy farmers) is the lack of good grazing land.

In contrast, pork and poultry production has grown rapidly. Output even far outstripped demand in the 1979-81 recession.

Although it seems economically sounder for South Korea to import feedstuffs for increased pork and poultry production rather than to support beef production, South Koreans have resisted this since beef has been the preferred meat for centuries.

Efforts are once again underway to stimulate beef production, and the government has begun to import beef from Australia again, after banning such imports in 1980. To the extent that South Korea does not import beef (to preserve foreign exchange) or raise its own beef, the market for feedstuffs will grow as pork and poultry are substituted for beef in the attempt to increase protein intake.

A third issue to watch is South Korea's possible diversification of import sources. In recent years the United States has supplied about 60 percent of the Korea's agricultural imports, usually providing all of the wheat, corn, and soybean imports, and about 95 percent of the cotton. However, the situation changed somewhat in 1981 as: High U.S. prices resulted in a noticeable drop in U.S. cotton exports; Canada and Australia explored opportunities to sell wheat; and Thailand has entered the Korean corn market for the first time since 1975.

A key factor in U.S. success in the Korean market in the past has been the availability of P.L. 480 and CCC programs. P.L. 480, which ended in 1981, provided over $2 billion in Title I and II assistance over the years.

Under the CCC commercial financing program, South Korea has received an average of about 25 percent of the amounts allocated by the United States. Other countries are aware of the importance of the financing, and are considering similar schemes. However, given its unique ability to supply large quantities of many farm products consistently and its wealth of experience in marketing to Korea, the United States should be able to hold its share of Korea's growing import needs. ■

Vegetable Oil in Asia: Mixed Prospects For 3 Big Producers

Asia's Coconut and Palm Oils As They Affect the United States

The trade in palm oil and coconut oil affects the United States as both an importer and exporter. The United States is the world's largest importer of coconut oil, while palm oil competes with U.S. soybean oil in some important international markets.

Coconut and palm oils are important components in the production and trade of vegetables oils. Coconut oil—the majority of which is produced in the Philippines—is obtained from copra, which is dried coconut. The resulting oil has both food and industrial uses. It is used as a cooking oil as well as in margarine, confections, and baked goods. Some of its most important industrial uses are found in the manufacture of soaps and detergents, cosmetics, and pharmaceuticals.

Palm oil—most of which originates in Malaysia—is used as a cooking and frying oil and as a component in shortenings, vanaspati, and margarines. Its industrial uses include soaps, cosmetics, and lubricants. Palm fatty acid and acid oils also have wide applications in various industries.

Malaysian palm oil competes with soybean oil, primarily in Asian and European markets. Over the past 5 years, Malaysia has aggressively and successfully promoted the sale of palm oil in new markets around the world. A recent Malaysian sales mission to India, Eastern Europe, and the Soviet Union reported that Malaysia hopes to increase its palm oil exports substantially to these markets. ■

By Judith G. Goldich

Three Asian countries—Indonesia, Malaysia, and the Philippines—are the world's most important producers of coconut oil and palm oil. Together, they account for about three-fourths of the world's coconut oil output and 98 percent of global palm oil production. Despite their similarities in the production of these oils, the three countries vary tremendously in terms of domestic use and international trade.

Malaysia, the largest palm oil producer, single-handedly accounts for practically all of the world's exports. The Philippines is the No. 1 producer/exporter of copra and products, whose export earnings play a vital role in the nation's economy. The world's fifth most populous nation, Indonsia, ranks No. 2 in the production of both coconut and palm oils, but with its domestic consumption rising rapidly exports are minimal.

Malaysia

Malaysian consumption of vegetable oils accounts for about one-seventh of total output, with the remainder of the production going into export.

The Malaysians are aggressive and sophisticated in the promotion and marketing of palm oil. The product is promoted by both the government and private producers, technical information—presented in readable and attractive forms—is circulated widely, and technicians are available to teach users how to handle the product.

The result: Malaysia accounts for almost all the palm oil now exported in the world.

Malaysian palm oil production is expected to reach 2.7 million metric tons in 1981. However, no growth in production occurred during the first half of the year, but output began a turnaround in July and a very modest increase is now seen for the year.

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Output is expected to continue to increase in the future, although not at the pace of the past few years. Similarly, Malaysia will maintain its commanding domination of world palm oil trade, despite increases in production now seen for other countries in Asia, Africa, and Latin America. Production in these countries seems likely to be diverted to satisfying growing domestic demand in these developing regions.

Malaysia probably will increase its capacity to turn refined palm oil into palm oil products, having already made the switch from exporting crude palm oil to exporting refined oil. Substantial research is now being carried out on the use of palm oil and its products in manufacturing.

Malaysian manufacturers are beginning to make products, such as vanaspati (a hydrogenated vegetable fat used as a substitute for butter), and they undoubtedly will export increasing shares of their oil in the form of processed products.

Coconut oil production is far less important to the economy, but Malaysia is expected to produce about 130,000 tons in 1981, of which 75,000 tons will be exported. More importance is now being attached to raising coconut trees, which are ideally suited for smallholder operations and are therefore useful in projects designed to reduce rural poverty.

Philippines

Copra and products have ranked as the Philippines' top foreign exchange earner in 4 of the past 5 years. About one-third of the country's population is directly or indirectly dependent on the coconut industry, with the majority involved in production. The country also has an infant palm oil industry.

The Philippines' vegetable oil situation is dominated by huge supplies of coconut oil and slack international demand that is depressing domestic oil prices. Domestic use is expected to show a sharp increase in 1981, but it appears that this gain will be in a quasi-industrial use: the government has authorized monthly purchases of

surplus coconut oil which is being used as diesel fuel.

Copra production in 1981 is forecast at about 2.4 million tons, about 10 percent more than in 1980, while exports are expected to be around 80,000 tons. Coconut oil output is forecast at about 1.4 million tons. Philippine copra production in the next 10 years will probably range between 2.0 and 2.5 million tons.

The government, recognizing that its aging tree population is the reason for stagnating coconut—and oil—production, is engaged in an ambitious replanting plan. The Philippine Coconut Authority (PCA) has played an active role in the development of higher yielding hybrids and has orchestrated the replanting program by supplying both seedlings and cultural advice to the smallholders, who are responsible for most of the country's copra production. However, the smallholders have not been very enthusiastic because the program requires cutting down old trees.

Philippine trade of copra and products has shifted sharply in the last few years. Copra exports have declined sharply as the result of a government policy to shift from raw material exports to the exports of processed products, namely coconut oil and copra cake and meal. Coconut oil exports in 1981 are expected to be around 1.1 million tons, compared with 916,000 in 1980. Another increase, to about 1.2 million tons, is forecast for 1982.

Palm oil plays a very minor role in the Philippine fats and oil sector, although about 15,000 tons are produced annually. Some government attention has been devoted to the possibility of expanding production, but it seems likely that because of the resources committed to the coconut trees replanting program the Philippines will remain only a minor producer of palm oil.

Indonesia

While Indonesia is the world's second largest producer of both coconut and palm oils, it presently plays almost no role in the international export market. In fact, it is even importing palm oil to

Indonesian Vegetable Oil Supply and Utilization, 1977-82

(In 1,000 metric tons)

Item	1977	1978	1979	1980	1981[1]	1982[1]
Production						
Coconut oil	708	691	713	772	765	791
Palm oil	497	525	600	691	722	790
Peanut oil	44	48	23	26	28	29
Total	1249	1264	1336	1489	1515	1610
Exports						
Coconut oil	0	0	21	41	10	10
Palm oil	421	412	438	455	230	235
Total	421	412	459	496	240	245
Domestic use						
Coconut oil	719	783	698	737	745	786
Palm oil	80	99	169	243	515	565
Peanut oil	44	48	23	26	28	29
Total	843	930	890	1006	1288	1380

[1]Forecast.

Malaysian Vegetable Oil Supply and Utilization, 1977-82

(In 1,000 metric tons)

Item	1977	1978	1979	1980	1981[1]	1982[1]
Production						
Soybean oil	0	0	0	7	29	35
Coconut oil	115	101	125	111	119	132
Palm oil	1613	1786	2189	2576	2700	2900
Peanut oil	2	2	2	2	2	2
Total	1730	1889	2316	2696	2850	3069
Exports						
Soybean oil	0	0	0	7	27	32
Coconut oil	27	22	66	72	75	78
Palm oil	1427	1514	1901	2260	2310	2470
Total	1454	1536	1967	2339	2412	2580
Domestic use						
Soybean oil	1	1	1	1	2	3
Coconut oil	79	76	60	55	50	60
Palm oil	135	130	214	342	383	390
Peanut oil	2	2	2	2	2	2
Total	217	209	277	400	437	455

[1]Forecast

Philippine Vegetable Oil Supply and Utilization, 1977-82
(In 1,000 metric tons)

Item	1977	1978	1799	1980	1981[1]	1982[1]
Production						
Cottonseed oil	0	0	0	1	1	0
Soybean oil	4	2	4	3	11	22
Coconut oil	1048	1214	994	1072	1360	1480
Palm oil	12	11	12	13	15	18
Peanut oil	4	3	4	4	5	6
Total	1068	1230	1014	1093	1392	1526
Exports						
Coconut oil	791	990	795	916	1100	1200
Palm oil	0	0	0	2	1	2
Total	791	990	795	918	1101	1202
Domestic use						
Cottonseed oil	0	0	0	1	1	0
Soybean oil	4	4	8	10	16	22
Coconut oil	260	224	186	180	251	280
Palm oil	15	13	16	14	14	19
Peanut oil	4	3	4	4	5	6
Total	283	244	214	209	287	327

[1]Forecast
Source: Prepared by FAS.

make up for domestic shortfalls in production. Vegetable oil demand is growing faster than production. It would appear, considering the rapid growth of population, that the country will not reenter the international export market for these oils in any significant fashion until planned increases in palm output actually materialize.

By 1982, domestic utilization of vegetable oils is expected to expand nearly 60 percent over the level 5 years earlier, while production will increase by about one-quarter.

To meet the increased domestic needs, Indonesia has not only reduced its exports sharply, but is even importing palm oil in 1981.

Indonesian palm oil production is forecast at around 722,000 tons in 1981, only slightly higher than in 1980. Indonesia—like Malaysia—experienced disappointing palm oil output in the first 6 months of 1981. Some observers attribute the slump to the trees entering a dormant stage, but many Indonesians blamed the unfavorable weather during the fruiting or pollination stage.

Crude palm oil output in the year's first half not only ran about 10 percent below plan, but more importantly was 5-10 percent below the comparable 1980 period. A sharp recovery was expected to occur in the second half of 1981; whether it will be enough to make up for the earlier shortfall remains to be seen.

Exports of crude palm oil were banned from February through mid-April this year in an attempt to supplement the country's short supplies of vegetable oils. As a result, exports of palm oil in 1981 will clearly be well below the 1980 level. In view of short supplies and recent increases in prices the government has decided to permit imports of palm olein.

A Japanese firm sold 35,000 tons of Malaysian palm olein to Indonesian private importers for delivery during June and July. It was first thought that the government might license imports of coconut oil—the preferred local cooking oil—which would have been less expensive. But, this did not occur.

Palm oil output in Indonesia is expected to rise rapidly in the next 5 years as newly planted areas in North Sumatra, West Java, and Kalimantan come into production. The government says Indonesia's processing capacity—already installed—totals 1 million tons and that it is underutilized now.

Coconut production in Indonesia is almost entirely a smallholder operation, which accounts for 99 percent of the copra output.

Indonesian coconut production has been increasing gradually as the result of an ambitious hybrid replanting program, despite the advanced age of existing trees and low producer prices, which make copra production relatively unattractive.

The government encouraged exports of coconut oil in late 1979 to take advantage of high world market prices, while diverting palm oil to the domestic market as a substitute for coconut oil. Exports ended by mid-1980 when world demand and prices declined vis-a-vis the domestic coconut oil price of about $700 per ton.

Despite efforts to increase exports, Indonesia has never been a substantial exporter of coconut oil. The country does export coconut cake and meal, most of which goes to Europe. With increasing domestic requirements, limited availability of substitute fats, and stagnating output, it now seems unlikely that Indonesia will play an important role in the international export market of coconut oil in the near future.

In fact, Indonesia probably will remain short of vegetable oils for the next few years, although increased supplies of palm oil from new plantings should start appearing in 3 or 4 years. However, domestic demand is not satisfied at present, so much of the possible increase in production may well be channeled into filling that gap. ■

Trade Briefs

USSR Asks Thailand To Buy More Soviet Goods

With Soviet purchases of Thai rice, corn, tapioca, and other products totaling US$325 million through early September, 26 times the value of Thai purchases from the USSR, the Thais are being urged to take more Soviet-produced goods. The Soviet Embassy in Bangkok apparently has suggested that the Thai Government should purchase about 1,000 Russian farm tractors at a "friendship price." Apparently, the USSR has a surplus of tractors, for even local firms offering grain are being asked to take a few tractors in barter.

Australia Sells Wheat to USSR

The Australian Wheat Board has announced a sale of 1 million tons of wheat to the USSR for delivery starting in January next year. This is the first sale from the new Australian crop, and sources said additional sales to the Soviets are expected as soon as the size of the new crop is known. During the past marketing year, Australian wheat shipments to the USSR were estimated at 2.4 million tons, the second highest on record.

FAS Survey of Average Retail Food Prices in Selected World Capitals, Nov. 3, 1981

(In U.S. dollars per kg[1] or units as indicated, converted at current exchange rates)

Item	Bern	Bonn	Brasilia[2]	Brussels	Buenos Aires	Canberra	Copenhagen	London	Madrid	Mexico City	Ottawa	Paris	Rome	Stockholm	The Hague[2]	Tokyo	Wash., D.C.
Steak, sirloin	19.43	11.64	—	10.97	3.15	8.78	13.20	12.89	8.14	[3]4.74	6.28	10.03	10.95	15.08	—	31.57	7.61
Roast, chuck	9.98	7.15	—	6.38	2.69	5.56	10.15	5.28	5.36	[3]4.74	3.77	10.03	9.69	8.61	—	22.34	4.26
Pork chops	9.17	5.79	—	4.94	2.25	5.96	([2])	5.41	3.85	6.60	5.66	6.25	6.32	7.85	—	8.66	4.15
Roast, pork	13.76	5.44	—	5.28	3.37	5.35	8.87	4.81	6.53	9.29	5.18	7.75	6.32	15.55	—	8.73	2.94
Bacon, sliced,	6.20	8.31	—	4.96	3.43	8.25	9.40	7.48	5.52	[4]8.73	3.90	23.27	8.51	9.54	—	8.80	3.49
Broilers	3.07	2.16	—	2.98	1.24	2.30	3.75	1.95	1.48	4.19	2.92	3.52	3.03	4.15	—	3.68	1.08
Eggs, dozen	2.59	1.80	—	1.34	.88	1.72	1.89	1.70	1.14	1.06	1.09	1.46	1.25	2.20	—	1.44	.91
Butter	8.23	4.41	—	4.40	5.06	2.93	4.17	3.62	7.29	6.28	3.66	([2])	4.68	4.04	—	6.43	4.38
Margarine	3.02	1.90	—	2.41	4.21	2.00	1.78	2.04	2.79	3.15	2.61	2.16	1.94	3.09	—	2.33	1.07
Cheese, cheddar or similar	7.93	8.19	—	6.63	5.62	3.11	6.44	4.81	7.53	11.41	6.14	5.47	5.21	5.97	—	5.19	7.29
Milk, whole, liter	.75	.46	—	.59	.67	.58	.62	[5].35	.50	.45	.72	.54	.57	.55	—	.96	.64
Oil, cooking, liter	2.32	2.20	—	2.20	3.43	2.35	3.37	1.46	1.76	1.56	1.88	1.95	.88	4.82	—	1.73	1.54
Tomatoes	1.29	1.97	—	1.45	1.35	3.24	2.20	1.49	.50	1.12	1.56	1.53	1.68	2.25	—	2.68	1.33
Onions	.86	.92	—	.40	.45	1.48	1.50	.74	.29	1.16	.64	.62	.50	1.02	—	1.42	1.02
Potatoes	.47	.39	—	.24	.34	.72	.60	.41	.24	1.27	.33	.25	.34	.49		1.55	.41
Apples	1.18	1.38	—	1.02	1.35	.99	.96	1.16	.67	1.68	1.51	.79	.76	1.31	—	1.66	1.74
Oranges	1.40	1.22	—	1.26	.40	.70	1.69	.99	.75	.26	1.40	.79	1.26	1.37	—	([6])3.98	.75
Bread, white, pkgd.	2.10	1.72	—	1.02	1.62	1.40	1.57	.94	.97	.88	1.05	1.08	1.39	2.37	—	1.69	1.41
Rice	1.02	1.31	—	.89	1.63	.95	1.67	1.16	1.20	1.03	2.26	1.42	1.14	1.85	—	1.41	1.04
Sugar	.80	.98	—	.99	.90	.58	1.56	.77	.72	.55	.71	.81	.80	1.00	—	1.20	1.32
Coffee	6.91	9.86	—	6.87	5.96	([2])	7.76	8.49	5.72	4.78	6.59	5.91	6.63	6.80	—	11.67	5.25

[1]1 kilogram = 2.2046 pounds. 1 liter = 1.0567 quart

Note: Prices in this table may not be directly comparable due to differences in quality, packaging, and seasonal variations in supply.

Food prices of selected commodities are obtained by U.S. agricultural counselors and attaches on the first Tuesday of every other month. Local currency prices are converted to U.S. prices on the basis of exchange rates on the date of compilation. Thus, shifts in exchange rates directly affect comparisons between time periods.

The objective of the survey is to reflect the level of prices in other countries of items normally purchased by U.S. consumers. Exact comparisons are not always possible, since quality and availability vary greatly among countries. An attempt is made to maintain consistency in the items and outlets sampled, but they are not necessarily representative of those in the reporting countries.

[1]Tokyo shopping done Nov. 2 because of a national holiday on Nov. 3. [2]Not available. [3]Both meats now priced the same in supermarkets, accounting for the marked drop in the price of sirloin steak. [4]Previously surveyed brand no longer available. [5]20 oz. British pint. [6]Imported.

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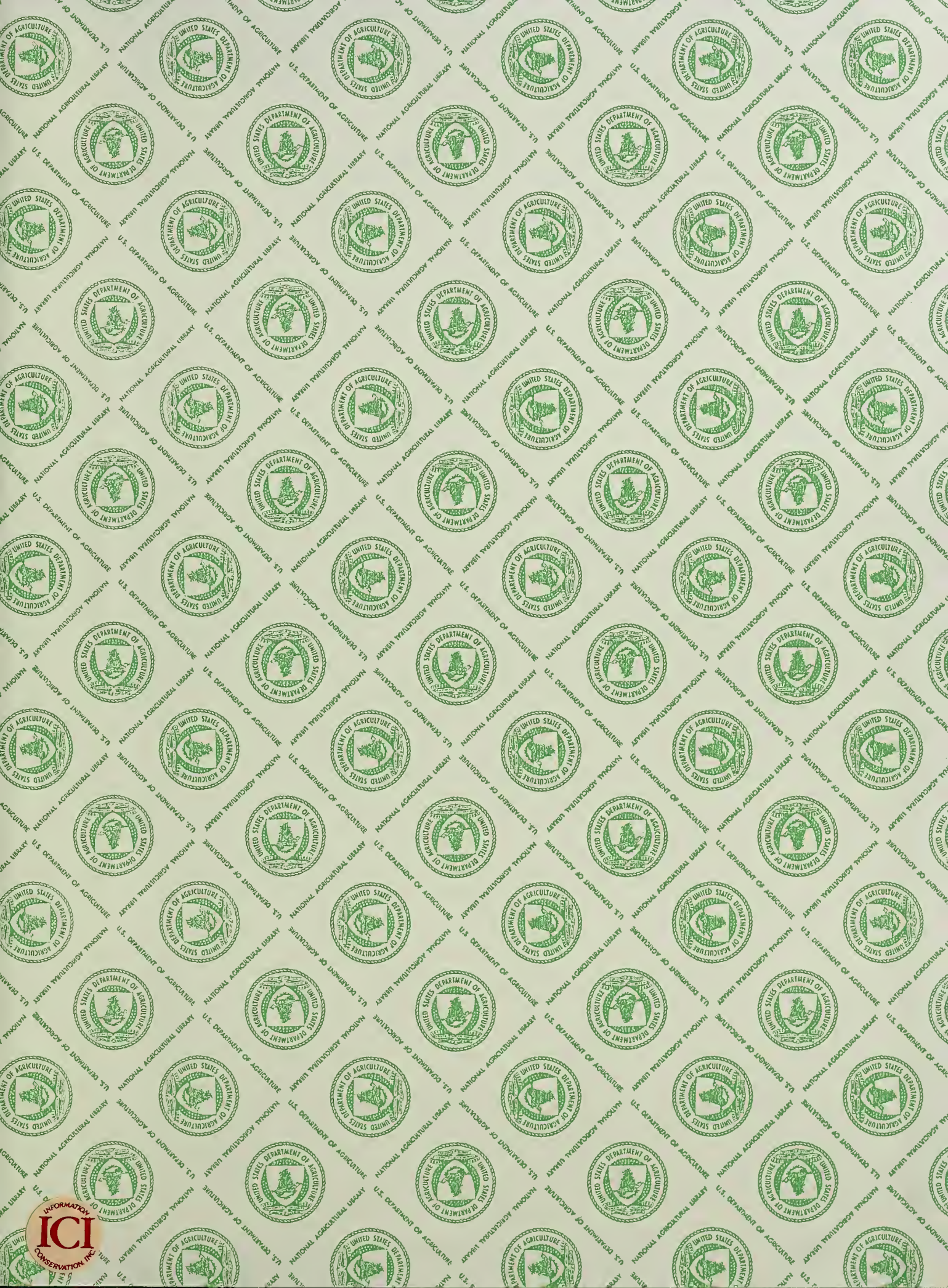
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